



Federal Accounting Standards Advisory Board

February 18, 2005

To: Members of the Board
From: Eileen Parlow, Assistant Director
Through: Wendy M. Comes, Executive Director
Subject: ***Accounting for Fiduciary Activities (Tab B)***

NOTE: The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

Meeting Objective

To review a draft revised Exposure Draft for Fiduciary Activities, including the following issues that were raised at the December 2004 Board meeting:

1. Payroll Withholdings and Garnishments
2. Seized Property
3. Other “Deposit Fund” activity, including negative balances

Attachments:

- A. “Clean copy” of the preliminary draft ED for re-exposure
- B. “Changes marked” (to original ED) for the following sections:
 - Executive Summary
 - Request for Comments
 - Introduction
 - Accounting Standard

1. Payroll Withholdings and Garnishments

Federal component agencies often use “deposit funds” as temporary clearing accounts for payroll withholdings due to state and local governments. At the October 2004 Board meeting, the Board noted that clearing accounts for withholdings of state and local payroll taxes for Federal employees (“payroll withholdings”) might not meet the Board’s intended definition of “fiduciary.”

Federal entities use deposit funds for payroll withholdings in two different ways:

1. Federal entities administering their own payroll disburse gross payroll from their appropriations. Net pay is disbursed to the employees; amounts withheld are often transferred to the entities’ deposit fund for later disbursement.
2. Other Federal entities, such as the Department of Agriculture’s National Finance Center (NFC), process payroll for other Federal entities, and use their own deposit funds for the receipt and subsequent disbursement of state and local payroll tax withholdings for the employees of the other (client) agencies.

Garnishments are a method of debt collection, in which a portion of an individual’s salary or tax refund is paid to a third party in compliance with a statute or court order.

Staff analysis:

There are three options for reporting the payroll withholdings and garnishments:

- Exclude payroll withholdings and garnishments from the fiduciary note disclosure and report the liability for unpaid payroll withholdings on the face of the balance sheet.
- Include unpaid payroll withholdings and garnishments with fiduciary reporting (note disclosure only), but with assets equal to liabilities. This would be similar to the GASB 34 model for “agency funds.”¹ However, this option would exclude the liability for unpaid payroll withholdings and garnishments from the balance sheet.
- Include unpaid payroll withholdings and garnishments with fiduciary reporting (note disclosure only) without distinction from other fiduciary reporting. This option would also exclude the liability for unpaid payroll withholdings and garnishments from the balance sheet.

At the December 2004 meeting, several Board members indicated support for excluding payroll withholdings from the fiduciary reporting standards so that the liability for unpaid payroll withholdings would remain on the balance sheet. The rationale was that payroll withholdings are an element of the Government’s cost of operations, and the liability for unpaid payroll withholdings should not be removed from the balance sheet.

Staff recommendation:

Staff agrees with the concept that amounts payable relating to payroll withholdings and garnishments are an element of the Government’s cost of operations and should not be excluded from the balance sheet. FASAB legal counsel has agreed with staff that garnishments can be classified in the same way as payroll withholdings.

¹ “Agency funds should be used to report resources held by the reporting government in a purely custodial capacity (assets equal liabilities).” GASB 34, par. 73.

Staff recommends the following wording (including footnotes) be added to the standard:

Exclusions

Amounts related to unpaid² payroll withholdings and garnishments³ are excluded from the reporting requirements of this standard. Payroll is an element of the Government's cost of operations. Amounts payable for goods or services received by a Federal component entity should not be reported as "fiduciary activity." Liabilities for unpaid payroll withholdings and garnishments should be recognized on the balance sheet in accordance with existing standards.

Question for the Board:

Does the Board agree with staff recommendation?

² Unpaid" means that amounts withheld or garnished have not been paid to the designated recipient of the amounts withheld or garnished.

³ Examples of garnishments include amounts withheld from an individual's salary or tax refund for payments of child support or to another third party in compliance with a statute or court order.

2. Seized Property

Staff analysis:

Seized property meets the definition of fiduciary activities.⁴ Seized assets represent an inflow of assets held by the Federal Government in which non-Federal parties have an ownership interest that the Federal Government must uphold. Although the Federal Government may in the future obtain a forfeiture of the seized property pursuant to procedures authorized by law, seized property is not government-owned and must be addressed separately from forfeited property.

Currently, seized monetary instruments are reported on the balance sheet with an offsetting liability; seized non-monetary assets, including non-valued seized property⁵, are reported in a note disclosure.⁶ SFFAS 3 required balance sheet reporting for seized monetary instruments “due to (1) the fungible nature of monetary instruments, and (2) the high level of control over the assets that is necessary.”⁷ However, at the October 2004 meeting the majority of Board members determined that fiduciary assets should not be reported on the balance sheet. A majority of Board members also did not agree that reporting fiduciary activities in a separate principal statement would provide a higher level of accountability than note disclosure.

At the December 2004 meeting, a majority of Board members indicated a preference for reporting fiduciary assets in a note disclosure, and not on the face of the balance sheet or any other principal statement.

Staff recommendation:

In order to be consistent with the Board’s preference for reporting fiduciary assets in a note disclosure, staff recommends that SFFAS 3 be amended to move the reporting and disclosures for all seized assets, including seized monetary instruments, to the proposed fiduciary note disclosure.

A reference might also be added to TR 4 to indicate that disclosures for non-valued seized assets should be displayed in the proposed fiduciary note disclosure.

Question for the Board:

Does the Board agree with staff recommendation?

⁴ “Seized property” includes monetary instruments, real property and tangible personal property of others in the actual or constructive possession of the custodial agency.” SFFAS 3, par. 59.

⁵ “Non-valued property either does not have a legal market in the United States, or does not have a salable value to the Federal government.” Technical Release (TR) 4, page 1.

⁶ SFFAS 3, Accounting for Inventory, paragraphs 59-78, and TR 4, Reporting on Non-Valued Seized and Forfeited Property. TR 4 recommends that “all material non-valued seized property should be disclosed in the financial statement footnotes in the same manner as prescribed for non-valued forfeited property.”

⁷ SFFAS 3, par. 61.

3. Other “Deposit Fund” Activity in FY 2004

Staff contacted several Federal component agencies about the nature of the balances held in deposit funds.

Negative Balances:

Some of the responses, particularly those for negative balances, indicate that deposit funds are sometimes used to hold unidentified or unreconciled balances. Since such amounts do not meet the definition of “fiduciary activities,” they would be subject to current standards. Current standards require these funds to be reported on the balance sheet,⁸ although SFFAS 7 is perhaps unclear on that point.⁹ Paragraph 370 of SFFAS 7 states:

370. Deposit fund transactions.—Deposit funds are accounts outside the budget that record amounts that the Government (a) holds temporarily until ownership is determined or (b) holds as an agent for others. The standards and guidance in this Statement do not apply to deposit funds except insofar as a particular deposit fund may be classified as part of a Federal reporting entity or a disclosure may be required due to a fiduciary relationship on the part of a Federal reporting entity toward a deposit fund.

Staff recommendation:

Staff recommends that paragraph 370 of SFFAS 7 be rescinded and that the following clarifying language be added to the fiduciary standard in the “Introduction” section:

Numerous “fund groups”¹⁰ are used in reporting to the Treasury Financial Management Service and the Office of Management and Budget. For example, “deposit funds” may be used for moneys that do not belong to the Federal Government. Regardless of how a fund group may be classified in reporting to the Treasury FMS or to the OMB, only those activities that meet the definition of fiduciary activity promulgated in this standard shall be subject to the reporting requirements of this standard. Activities that do not meet the definition are not subject to the reporting requirements of this standard.

Question for the Board:

Does the Board agree with staff recommendation?

⁸ SFFAS 1, par. 26.

⁹ SFFAS 7, Appendix B, par. 370.

¹⁰ For a description of “fund groups” used in reporting to Treasury FMS and the OMB, see the Treasury Financial Manual, Part 2, Chapter 1500.

4. Preliminary Draft for Re-Exposure

Attachments:

- C. “Clean copy” of the preliminary draft ED for re-exposure, and
- D. “Changes marked” (to original ED) for the following sections:
 - Executive Summary
 - Request for Comments
 - Introduction
 - Accounting Standard

Note: The preliminary Draft for Re-Exposure is provided to the FASAB Board Members and staff only. This document is not available on the FASAB website.